REPORT OF EXAMINATION
OF THE

GOLDEN EAGLE INSURANCE CORPORATION

AS OF
DECEMBER 31, 2004

Participating State
and Zone:

California

Filed June 30, 2006

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Los Angeles, California
April 10, 2006

Honorable Alfred W. Gross
Chairman of the NAIC Financial
Condition Subcommittee
Commissioner of Insurance
Virginia Bureau of Insurance
Richmond, Virginia

Honorable Gary L. Smith
Secretary, Zone IV-Western
Director of Insurance
Department of Insurance, State of Idaho
Boise, Idaho

Honorable John Garamendi
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Chairman, Director and Commissioner:

Pursuant to your instructions, an examination was made of the

GOLDEN EAGLE INSURANCE CORPORATION

(hereinafter also referred to as the Company) at its home office, located at 525 B Street, San Diego, California 92101.

SCOPE OF EXAMINATION

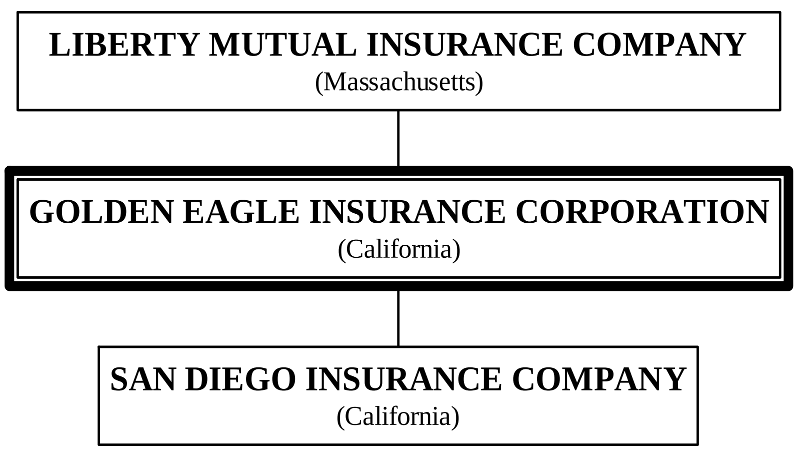
The previous examination of the Company was made as of December 31, 1999. This examination covers the period from January 1, 2000 through December 31, 2004. The examination was made pursuant to the National Association of Insurance Commissioners' (NAIC) plan of examination. The examination included a review of the Company's practices and procedures, an examination of management records, tests and analyses of detailed transactions within the examination period, and an evaluation of the assets and a determination of liabilities as of December 31, 2004, as deemed necessary under the circumstances. This examination was conducted concurrently with the examination of San Diego Insurance Company, a wholly-owned subsidiary.

The Company is a member of the Liberty Insurance Holdings pool. The lead company in the pool, Peerless Insurance Company, was concurrently examined by the New Hampshire Department of Insurance (NHDOI). This examination relied on the work performed by the NHDOI in the following pooled accounts: losses and loss adjustment expenses; reinsurance; and premiums.

In addition to those items specifically commented upon in this report, other phases of the Company's operations were reviewed including the following areas that require no further comment: company history; fidelity bonds and other insurance; officers', employees' and agents' welfare and pension plans; growth of company; business in force by states; and sales and advertising.

MANAGEMENT AND CONTROL

The Company is a wholly-owned subsidiary of Liberty Mutual Insurance Company (LMIC). The following abridged organizational chart, which is limited to the Company's parent along with its subsidiary insurance company, depicts the Company's relationship within the holding company system.



All ownership is 100%.

Management of the Company is vested in an eleven-member board of directors elected annually. A listing of the members of the board and principal officers serving on December 31, 2004 follows:

Directors

Name and Residence	Principal Business Affiliation
Roger L. Jean Amherst, New Hampshire	President Liberty Regional Agency Markets
Kenneth P. Blackwood Keene, New Hampshire	Senior Vice President, Claims Liberty Regional Agency Markets
Michael R. Christiansen Keene, New Hampshire	Executive Vice President, Operations Liberty Regional Agency Markets
James F. Dore Boston, Massachusetts	Chief Financial Officer Liberty Regional Agency Markets
John D. Doyle Southborough, Massachusetts	Comptroller Liberty Mutual Insurance Company
Bob D. Effinger, Jr. Keene, New Hampshire	Chief Actuary Liberty Regional Agency Markets
Mark E. Fiebrink Amherst, New Hampshire	Executive Vice President Liberty Regional Agency Markets
Francis J. Kotarba Rancho Santa Fe, California	President and Chief Executive Officer Golden Eagle Insurance Corporation
Amy J. Leddy Weston, Massachusetts	Senior Vice President, Marketing & Communication Liberty Regional Agency Markets
Christopher C. Mansfield Dedham, Massachusetts	Senior Vice President and General Counsel Liberty Mutual Insurance Company
William G. Mersch Groton, Massachusetts	Senior Vice President, Human Resources Liberty Regional Agency Markets

Principal Officers

Name	Title
Roger L. Jean	Chairman of the Board
Francis J. Kotarba	President and Chief Executive Officer
Steven N. Martin	Vice President, Finance and Treasurer
Timothy R. Lickness	Vice President, Legal and General Counsel
Michael R. Christiansen	Executive Vice President
Bob D. Effinger, Jr.	Executive Vice President
Mark E. Fiebrink	Executive Vice President

Management Agreements

Management Services Agreement: The Company entered into a Management Service Agreement with Liberty Mutual Insurance Company (LMIC) on August 21, 1997. According to the agreement, LMIC provides management services to the Company. The services include, but are not limited to, investment advice, accounting, tax preparation, payroll, and employee benefits. The agreement specifies that the Company shall reimburse LMIC for the reasonable cost of performing any of these services. This agreement was approved by the California Department of Insurance (CDI) in June 2001.

Services Agreement: The Company and several affiliates participate in a Services Agreement as of April1, 2001. This agreement mandates that Peerless Insurance Company (PIC), a New Hampshire insurer, and Montgomery Mutual Insurance Company (MMIC), a Maryland insurer, will provide such services as the remaining parties may request regarding the pooling of accounts for reinsurance. Such services may include coordinating the activities of the companies, marketing and advertising services, information systems support, payroll services, human resources support and personnel, coordinating the development of corporate plans for the companies and providing consulting and other services to the companies as they may request. All expenses are allocated among the companies in accordance with the pooling percentages by which the companies participate. This agreement was approved by the CDI in March 2004.

Federal Tax Sharing Agreement: The Company and its affiliates are part of a consolidated federal income tax agreement with the Company's immediate parent, Liberty Mutual Insurance Company. Allocation of taxes is based upon separate return calculations with inter-company tax balances normally settled in the quarter subsequent to the filing of the consolidated return. This agreement was approved by the CDI on November 19, 2003, and an amendment was approved on January 23, 2006.

CORPORATE RECORDS

California Insurance Code (CIC) Section 735 states that the Company must inform the board members of the receipt of the examination report. The board should be informed of the report both in the form first formally prepared by the examiners and in the form as finally settled and officially filed by the Commissioner. The board must also enter that fact in the board minutes. A review of the board minutes disclosed that the officially filed report was not presented to the board.

The Company's board actions regarding the authorization and approval of investments did not satisfy the requirements of CIC Section 1201. The Company's minutes failed to document specific references to amounts, facts and the values of the securities as required under CIC Section 1201.

It is recommended that the Company implement procedures to ensure future compliance with CIC Sections 735 and 1201.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2004, the Company was licensed to transact multiple lines of property and casualty insurance in California and Arizona.

In 2004, the Company wrote $47.5 million of direct premiums. Of the direct premiums written, 98.1% or $46.6 million was written in California, and 1.9% or $886,667 was written in Arizona.

The principal lines of direct business written are commercial multiple peril and other liability – occurrence, which amounted to approximately 91% of the Company's total premiums written in 2004. However, because all of the Company's net premiums written come from an intercompany reinsurance pool, it also assumes a considerable volume of workers' compensation and auto risks.

The Company's business is produced by the Regional Agency Markets (RAM) segment of Liberty Mutual Group Inc. Subsequently, RAM was subsumed by a new strategic business unit named Liberty Mutual Agency Markets (LMAM), and the former RAM segment became the regional companies of LMAM. The Company's products are marketed through an extensive network of independent insurance agents throughout California and Arizona.

LOSS EXPERIENCE

The Company reported underwriting and/or net losses in all years under examination except one as follows:

Year	Net Underwriting Gain (Loss)	Net Income (Loss)
2000	(30,823,802)	8,988,783
2001	(58,757,268)	(4,956,222)
2002	(17,331,532)	11,448,292
2003	(21,858,941)	17,465,157
2004	143,439	24,037,317

The Company has maintained its reported surplus position since the previous examination primarily though investment income. The underwriting losses were caused by adverse development in workers compensation and commercial multiple peril lines.

REINSURANCE

Assumed

The Company assumed premium from the Liberty Insurance Holdings (LIH) Pool, described below, in the amount of $450.3 million. The Company also has assumed reinsurance from the Golden

Eagle Insurance Company Trust, a successor to the conserved Golden Eagle Insurance Company, in the amount of $17.7 million on known case losses and loss adjustment expenses only.

Ceded

The company is a member of the Liberty Insurance Holdings (LIH) Inter-Company Reinsurance Agreement consisting of the following affiliated companies and pooling percentages as of December 31, 2004:

Lead Company:	
Peerless Insurance Company	41.59%
Affiliated Pool Companies:	
Peerless Indemnity Insurance Company	27.36%
Golden Eagle Insurance Corporation	13.25%
Indiana Insurance Company	12.25%
The Netherlands Insurance Company	3.27%
Montgomery Mutual Insurance Company	2.28%
Total	100.00%

The following is a summary of the principal ceded reinsurance treaties inforce as of December 31, 2004:

Type of Contract	**Reinsurer's Name**	**Company's Retention**	**Reinsurer's Maximum Limits**
First Property per Risk Excess of Loss (RAM)	Partner Re – 20% Swiss Re – 40%	$3 million per risk	$2 million per risk
Second Property per Risk Excess of Loss (RAM)	Liberty Mutual Insurance Co. -50% Partner Re – 17.5% Swiss Re – 32.5%	$5 million per risk	$5 million per risk
Third Property per Risk Excess of Loss (RAM)	Liberty Mutual Insurance Co. -50% Partner Re – 17.5% Swiss Re – 32.5%	$10 million per risk	$15 million per risk
First Casualty Excess of Loss (Peerless/RAM)	Partner Re – 20% Swiss Re – 35%	$3 million each loss occurrence	$2 million each loss occurrence
Second Casualty Excess of Loss (Peerless/RAM)	Partner Re – 35% Swiss Re – 65%	$5 million each loss occurrence	$5 million each loss occurrence
Third Casualty Excess of Loss (Peerless/RAM)	Partner Re – 35% Swiss Re – 65%	$10 million each loss occurrence	$15 million each loss occurrence
First Casualty Excess of	Partner Re – 35%	$2 million each	$3 million each

Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Maximum Limits
Loss (Peerless/1B)	Swiss Re – 65%	loss occurrence	loss occurrence
Second Casualty Excess of Loss (Peerless/1B)	Partner Re – 35% Swiss Re – 65%	$5 million each loss occurrence	$5 million each loss occurrence
Third Casualty Excess of Loss (Peerless/1B)	Partner Re – 35% Swiss Re – 65%	$10 million each loss occurrence	$15 million each loss occurrence
Property Catastrophe Excess of Loss	Liberty Mutual Insurance Co. – 100%	$50 million each loss occurrence	$100 million each loss occurrence
Workers' Compensation Catastrophe Excess of Loss	Liberty Re (Bermuda), Ltd. – 100%	$25 million each loss occurrence	$75 million each loss occurrence
Property Excess of Loss	Swiss Re – 65% Partner Re – 35%	$2 million each loss occurrence	$23 million each loss occurrence
Excess of Loss	Hartford Steam Boiler Inspection & Insurance Company – 100%	$0 each loss occurrence	$50 million each loss occurrence
Specific Property Terrorism Excess of Loss	Partner Re – 35% Swiss Re – 65%	$5 million each loss occurrence	$20 million each loss occurrence
Second Event Casualty Terrorism Excess of Loss (1B)	Swiss Re – 100%	$5 million each loss occurrence	$10 million each loss occurrence
Specific Property per Risk Excess of Loss	Partner Re – 35% Swiss Re – 65%	$5 million per risk	$20 million per risk

As of December 31, 2004, reinsurance recoverables, for all ceded reinsurance totaled $303.7 million or 115.1% of surplus as regards policyholders. All of the ceded reinsurance recoverables were from affiliated admitted reinsurers. Except for the Inter-company pooling agreement mentioned above, most of the ceded reinsurance treaties were written in the name of the Company's parent, Liberty Mutual Insurance Company.

ACCOUNTS AND RECORDS

This examination experienced difficulties obtaining supporting documentation for much of the information reported by the Company in its filed Annual Statements. The difficulty results, in part, from the decentralized nature of the recordkeeping and from the need to reconcile balances before and after pooling with affiliates. It is recommended that the Company maintain documentation to support certain financial statement accounts. The documentation should be prepared in sufficient detail as to allow for a full and complete audit trail from the Annual Statement to individual records.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2004

Underwriting and Investment Exhibit for the Year Ended December 31, 2004

Reconciliation of Surplus as Regards Policyholders
from December 31, 1999 through December 31, 2004

Statement of Financial Condition
as of December 31, 2004

Assets	Ledger and Nonledger Assets	Assets Not Admitted	Net Admitted Assets	Notes
Bonds	$ 450,451,112	$	$ 450,451,112	
Stocks:				
Common stocks	92,357,524		92,357,524	
Cash and short-term investments	23,852,851		23,852,851	
Other invested assets	1,976,186		1,976,186	
Receivable for securities	10,751		10,751	
Investment income due and accrued	5,380,064		5,380,064	
Premiums and considerations:				
Premiums and agents' balances in course of collection	18,851,151	1,688,935	17,162,216	
Deferred premiums, agents' balances and installments but deferred and not yet due	99,164,323	327,559	98,836,764	
Amounts recoverable from reinsurers	(203,589)		(203,589)	
Current federal income tax recoverable	7,466,633		7,466,633	
Net deferred tax asset	27,701,000	10,178,904	17,522,096	
Guaranty funds receivable or on deposit	730,611		730,611	
Electronic data processing equipment	113,623	19,397	94,226	
Furniture and equipment	1,437,185	1,437,185	0	
Receivables from parent, subsidiaries and affiliates	34,869,343		34,869,343	
Other assets nonadmitted	560,047	560,047	0	
Aggregate write-ins for other than invested assets	1,972,027	227,199	1,744,828	
Total assets	$ 766,690,842	$ 14,439,226	$ 752,251,616	

Liabilities, Surplus and Other Funds

			Notes
Losses		$ 228,017,584	(1)
Loss adjustment expenses		54,666,850	(1)
Commissions payable, contingent commissions and other similar charges		13,309,934	
Other expenses		1,622,997	
Taxes, licenses and fees		5,376,495	(2)
Unearned premiums		179,590,789	
Advance premium		692,257	
Ceded reinsurance premiums payable		9,790	
Amounts withheld or retained by company		258,722	
Drafts outstanding		680	
Aggregate write-ins for liabilities		4,818,270	
Total liabilities		488,364,368	
Common capital stock	$ 2,600,000		
Gross paid-in and contributed surplus	221,633,333		
Unassigned funds (surplus)	39,653,915		
Surplus as regards policyholders		263,887,248	
Total liabilities, surplus and other funds		$ 752,251,616	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2004

Statement of Income

Underwriting Income		
Premiums earned		$ 348,149,170
Deductions:		
Losses incurred	$ 186,528,859	
Loss expense incurred	44,831,111	
Other underwriting expenses incurred	117,501,810	
Aggregate write-ins for underwriting deductions	(856,049)	
Total underwriting deductions		348,005,731
Net underwriting gain		143,439
Investment Income		
Net investment income earned	$ 30,521,696	
Net realized capital gains	3,869,974	
Net investment gain		34,391,670
Other Income		
Net loss from agents' balances charged off	(927,624)	
Finance and service charges not included in premiums	646,537	
Aggregate write-ins for miscellaneous income	$ 486,477	
Total other income		205,390
Net income before dividends to policyholders and before federal income taxes		34,740,499
Dividends to policyholders		479,018
Federal income taxes incurred		10,224,164
Net income		$ 24,037,317

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2003		$ 234,984,726
Net income	$ 24,037,317	
Change in net unrealized capital gains	5,303,600	
Change in net deferred income tax	(2,364,910)	
Change in nonadmitted assets	2,625,552	
Change in provision for reinsurance	673,000	
Aggregate write-ins for gains and losses in surplus	(1,372,037)	
Change in surplus as regards policyholders		28,902,522
Surplus as regards policyholders, December 31, 2004		$ 263,887,248

Reconciliation of Surplus as Regards Policyholders
from December 31, 1999 through December 31, 2004

	Gain in Surplus	Loss in Surplus	
Surplus as regards policyholders, December 31, 1999, per Examination			$ 186,468,685
Net income	$56,983,327	$	
Net unrealized capital gains	18,244,822		
Change in net deferred income tax		6,819,851	
Change in nonadmitted assets	24,685,321		
Cumulative effect of changes in accounting principles		9,711,040	
Aggregate write-ins for losses in surplus		5,964,016	
Totals	$ 99,913,470	$ 22,494,907	
Net increase in surplus as regards policyholders for the examination period			77,418,563
Surplus as regards policyholders, December 31, 2004, per Examination			$ 263,887,248

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

Loss and loss adjustment expense reserves were reviewed and analyzed as a pool by an actuary retained by the Massachusetts Department of Insurance. The reserve analysis and the actuarial report were submitted to a Casualty Actuary from the California Department of Insurance (CDI). The CDI actuary, based on the review of the analysis and actuarial report, determined that the reserves were adequate as of December 31, 2004..

(2) Taxes, Licenses and Fees

California Insurance Code (CIC) Sections 1872.8(a), 1872.81(a) and 1874.8(a) state, in part, that each insurer doing business in the State of California must pay an annual Vehicle Fraud Assessment Fee for each vehicle insured under an insurance policy it issues in California. The fee provides funding for the increased investigation and prosecution of fraudulent automobile insurance claims and automobile theft in the State of California.

During the course of this examination, it was noted that the Company inadvertently failed to remit the Vehicle Fraud Assessment Fee on its policies issued as required by the CIC. The total amount due is $5,365, plus additional late charges assessed based on CIC Section 12995, and is summarized by quarter as follows:

Quarter	Fee/Vehicle	Vehicle Count	Amount Due
10/01/02 – 12/31/02	$0.45	1,534	$690
01/01/03 – 03/31/03	$0.45	(3,528)	$(1,588)
04/01/03 – 06/30/03	$0.45	1,405	$632
07/01/03 – 09/30/03	$0.45	1,661	$747
10/01/03 – 12/31/03	$0.45	1,583	$712
01/01/04 – 03/31/04	$0.45	2,688	$1,210
04/01/04 – 06/30/04	$0.45	1,866	$840
07/01/04 – 09/30/04	$0.45	2,478	$1,115
10/01/04 – 12/31/04	$0.45	2,236	$1,006
	Total	**11,923**	**$ 5,365**

It is recommended that the Company remit the amount due to the CDI and implement procedures to insure future compliance. Since the amount was deemed not material, no adjustment was made to the Company's financial statements. The Company stated that it has implemented procedures to assure future compliance with the requirement of CIC Sections 1872.8(a), 1872.81(a) and 1874.8(a).

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Corporate Records (Page 5): It is recommended that the Company implement procedures in its board meetings to ensure compliance with California Insurance Code Sections 735 and 1201.

Accounts and Records (Page 8): It is recommended that the Company maintain documentation to support all financial statement accounts. The documentation should be prepared in sufficient detail as to allow for a full and complete audit trail from the Annual Statement to individual records.

Previous Report of Examination

No comments were made in the previous Report of Examination.

ACKNOWLEDGEMENT

The courtesy and cooperation extended by the Company's officers and employees during the course of this examination are hereby acknowledged.

Respectfully submitted,

________/S/______________

Aram Shahenian, CFE
Examiner-In-Charge
Senior Insurance Examiner - Supervisor
Department of Insurance
State of California